The Boom, the Bust and Now...

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**Agenda**

- The boom and bust in farm commodity prices
  - What happened
  - Why

- The outlook
  - A few projections
  - What to watch for
Futures prices are monthly averages of nearby CBOT contracts. Farm price is as reported by USDA’s National Agricultural Statistics Service.
Why did prices rise, then decline?

**WHY PRICES ROSE**
- Reduced grain production in Europe, Australia

**WHY PRICES FELL**
- Sharp increase in global grain production in 2008
Competitor production of wheat, barley and corn

Source: USDA’s PSD Online, January 2009
Why did prices rise, then decline?

**WHY PRICES ROSE**
- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere

**WHY PRICES FELL**
- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
Real GDP growth
(IHS Global Insight, January 2009)
Why did prices rise, then decline?

WHY PRICES ROSE

- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar

WHY PRICES FELL

- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
U.S. soybean prices in dollars and Brazilian currency

Source: Author calculations based on calendar year or monthly average U.S. farm prices and exchange rates.
Why did prices rise, then decline?

**WHY PRICES ROSE**
- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- Higher petroleum prices

**WHY PRICES FELL**
- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- Lower petroleum prices
Corn and petroleum prices

Corn price is U.S. farm price. Petroleum price is for West Texas Intermediate. Sources: USDA and EIA
Why did prices rise, then decline?

**WHY PRICES ROSE**
- Reduced grain production in Europe, Australia
- Economic growth in Asia and elsewhere
- Weaker dollar
- Higher petroleum prices
- Rapid biofuel expansion

**WHY PRICES FELL**
- Sharp increase in global grain production in 2008
- Financial crisis and world economic slowdown
- Stronger dollar
- Lower petroleum prices
- Slower biofuel growth
Ethanol dry mill operating costs and returns

Source: FAPRI-MU projections, Nov. 2008

Note: Assumes current tax credits and tariffs extended
Source: Renewable Fuels Association.

Note: Idle nameplate capacity (1.9 billion gallons on 2/5/09) was not reported in 2007 or 2008.
## Why did prices rise, then decline?

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<thead>
<tr>
<th>WHY PRICES ROSE</th>
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<td>Weaker dollar</td>
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<td>Higher petroleum prices</td>
<td>Lower petroleum prices</td>
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<td>Rapid biofuel expansion</td>
<td>Slower biofuel growth</td>
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<td>Policy response</td>
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<td>Speculation</td>
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So now what?

- Market outlook is even more uncertain than usual

- What I’d tell you tomorrow is different than what I’ll tell you today
Petroleum price forecasts from IHS Global Insight

Price for West Texas Intermediate. Nearby NYMEX futures, 2/13/09: $38/barrel
2008/09 corn, petroleum prices

Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.
Futures, 6/6/08, March 2009 contracts:
NYMEX petroleum: $136.93-$5.00 basis;
CBOT corn: $6.92-$0.40 basis

Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.
Futures, 2/17/09, March 2009 contracts:
NYMEX petroleum: $34.97-$3.00 basis;
CBOT corn: $3.49-$0.25 basis

Source: FAPRI 2008 stochastic baseline. FAPRI is now developing its 2009 stochastic baseline.
Biofuel consumption and the Renewable Fuel Standard (RFS)

Notes: RFS adjusted for projected shortfall in cellulosic production relative to mandate; one gallon of biodiesel assumed to count as 1.5 gallons of biofuel

## FAPRI price projections

**Nov. 2008 preliminary baseline (new projections forthcoming)**

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<td>Corn farm price/bushel</td>
<td>$2.24</td>
<td>$4.05</td>
<td>$4.21</td>
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<td>Soybean farm price/bushel</td>
<td>$5.66</td>
<td>$9.68</td>
<td>$10.12</td>
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<td>Wheat farm price/bushel</td>
<td>$3.35</td>
<td>$6.64</td>
<td>$5.92</td>
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<td>Cotton farm price/pound</td>
<td>46.0¢</td>
<td>54.9¢</td>
<td>58.3¢</td>
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<td>Rice farm price/cwt</td>
<td>$6.77</td>
<td>$14.65</td>
<td>$13.85</td>
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<td>Fed cattle (Neb. direct)/cwt</td>
<td>$78.79</td>
<td>$92.05</td>
<td>$102.04</td>
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<td>Hogs (51-52% lean, live eq.)/cwt</td>
<td>$44.95</td>
<td>$47.47</td>
<td>$54.35</td>
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<td>Chicken (12-city wholesale)/lb.</td>
<td>63.15¢</td>
<td>78.05¢</td>
<td>86.43¢</td>
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<td>All-milk price/cwt</td>
<td>$13.78</td>
<td>$18.73</td>
<td>$18.02</td>
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New FAPRI baseline scheduled for release March 5 or 6

Will be based on information available in January
  - Thus more current than USDA long-term outlook based on November information
  - But not as current as USDA short-term outlook discussed here at the Forum
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FAPRI-Missouri website for US projections: www.fapri.missouri.edu

FAPRI-Iowa State website for global projections: www.fapri.iastate.edu